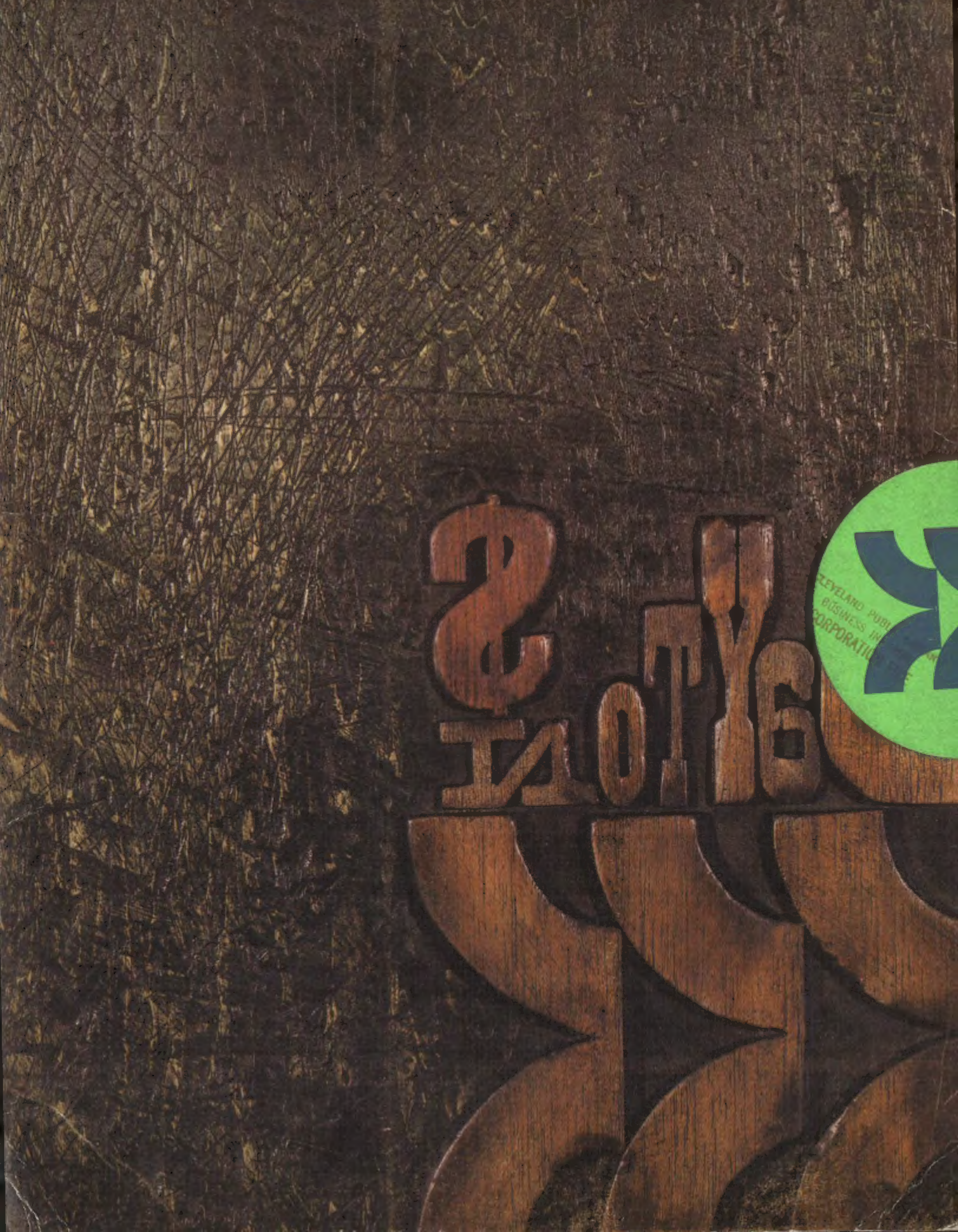
DAYTON CORPORATION ANNUAL REPORT 1968



FINANCIAL HIGHLIGHTS

	1968	1967	Percent Increase
Total Revenues	$441,335,590	$375,318,100	17.6
Income Before Income Taxes	33,428,659	28,840,316	15.9
Income Taxes	17,860,000	14,389,847	24.1
Net Income	15,568,659	14,450,469	7.7
Earnings Per Common Share	1.36	1.29	5.4
Shareholders' Investment	109,701,043	98,628,998	11.2
Working Capital	71,294,265	66,592,784	7.1
Capital Expenditures	35,645,443	11,648,910	206.0
Total Square Feet of Retail Space	4,937,000	4,500,000	9.7
Average Common Shares Outstanding	11,350,330	10,881,066	4.3
Number of Shareholders	6,575	5,975	10.0
Number of Employees	10,511	9,204	14.2

TO OUR SHAREHOLDERS

1968

Was a year of growth
and expansion.

We gained new partners,
added significantly to retail space,
and expanded both total revenues and
net income.

Our new partners: Lipman's
Department Stores in
Oregon and
Diamond's Department Stores in Arizona;
Lechmere Sales,
Boston hard goods retailer;
Pickwick Book Shops
in Southern California;
J. E. Caldwell, Philadelphia fine jewelers.
These companies add strength and vitality
to Dayton Corporation.

To accelerate our growth,
we undertook our largest capital spending
program— $36 million.

436,511 square feet of retail
space was added in 1968.
Projects to be completed in 1969
involve an additional
1,790,000 square feet of retail space
—an increase of 28 percent.

Pre-opening expenses of these stores
will hold back earnings
during the early part of 1969,
but we anticipate
an increase over 1968 in
earnings for the year.

Our organizational structure
continued to evolve. We
see our business as
four distinct operating groups:

DEPARTMENT STORES
DISCOUNT AND HARD GOODS STORES
SPECIALTY STORES
REAL ESTATE

Each retail group capitalizes on
a segment of the market
and is uniquely qualified
to fulfill certain customer needs.
Taken together, the four groups form
a strong and diversified retailing organization,
dedicated to serving
the constantly growing and
changing needs of
consumers
for goods and services.
Within this definition,
we focus
on those markets which offer
the greatest growth and profit opportunities

and where our management talent
can be applied most effectively.

This is the heart
of our corporate philosophy
which we formalized in 1968. The result is
a statement of
what Dayton Corporation is
and where it is going.

Certain principles are fundamental to this philosophy:

Growth and earnings comparable to the best in American industry.

Dominance, quality and fashion in all phases of merchandising.

The proposition that every person has unlimited potential.

*The belief that the ultimate test of business success is the ability to serve people, including our customers, our employees, our shareholders and the communities in which we operate.**

Thus, we are committed
to a high level
of performance and responsibility.
But our strong organization
and expanded physical facilities
—developed in response to
the dynamic growth of the marketplace—
give us confidence in our ability
to measure up
to the standards we have set.

Sincerely,

Bruce B Dayton

Bruce B. Dayton
President

April 21, 1969

*Copies of the philosophy are available by writing Harold I. Lunde, Corporate Secretary.

J. L. HUDSON—DETROIT LANDMARK

FINE ARTS GALLERY IN DOWNTOWN STORE

Hudson's

—the nation's largest independently owned department store operation— has agreed to combine with Dayton Corporation. The resulting company will be called Dayton-Hudson Corporation.

The combination will rank as the nation's 14th largest non-food retailer, with 1968 total revenues of $812 million and net income of $24.4 million.


HUDSON'S
NORTHLAND

The J. L. Hudson Company is
the leading retailer in metropolitan Detroit—
4.3 million population and
auto capital of the world.
Hudson's operates six full-line
department stores,
three budget stores at separate locations,
a warehouse store
and a fine jewelry store,
all in the Detroit area.

Hudson's was founded in 1881,
21 years before Dayton's.
It is, like Dayton's, a charter member
of Associated Merchandising Corporation.

Hudson's 2.1 million square foot
downtown store is
the nation's third largest.
Its 601,000 square foot store
in Northland Center has
the largest sales volume
of any branch store in the country.

The combination will more than double
the Corporation's
department store operations,
adding 4.5 million square feet of
retail space
and $363.3 million in retail sales.

Expansion plans call for
two new Hudson's stores,
both under construction and
planned for 1970 opening.

Hudson's fine jewelry store,
Charles W. Warren & Company,

LARGEST SALES VOLUME OF
ANY BRANCH STORE IN THE
WORLD DISTINGUISHES HUDSON S
(601 000 SQUARE FEET) IN
SUBURBAN DETROIT S NORTH
LAND CENTER ONE OF THE
LARGEST SHOPPING
CENTERS IN THE U S

will open two branches
in suburban Detroit in 1969.

Hudson's has extensive real estate holdings, including three large regional shopping centers, peripheral professional and office facilities. It leases 1.5 million square feet of space to other tenants. Two new shopping centers will open in 1970.

Hudson's has expanded rapidly, increasing retail square footage by over 25 percent since 1964. During the same period, total revenues grew from $294.2 million to $370.6 million. In 1968, net income totaled $8.9 million.

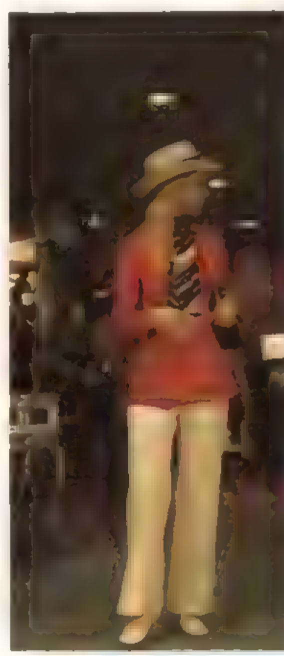
The combination will provide the Corporation with a much stronger capital base, adding $144.2 million of equity capital.

Dayton shareholders will vote on the combination at the annual meeting on May 19. Hudson shareholders will vote May 16.

Under terms of the agreement, Dayton Corporation will issue 4,500,000 shares of its common stock in exchange for all the outstanding stock of Hudson's and its subsidiaries.

Joseph L. Hudson, Jr.—president of Hudson's—will continue in that post and will also become vice chairman of the board of the combined corporation. Mr. Hudson and three other Hudson's executives will be nominated for the board of directors of the combined corporation.

Bruce B. Dayton will become chairman of the board and K. N. Dayton will become president.



NEW LOOK—NEWEST DETROIT AREA HUDSON'S WAS OPENED IN JULY 1968 IN OAKLAND MALL STORE HAS 373,000 SQUARE FEET

Sales $223,276,791, up 5.5 percent over 1967 ([illegible]).

Diamond's and Lipman's merge with Corporation.

Dayton's opens new home furnishings store.

Diamond's begins third store in Phoenix area.

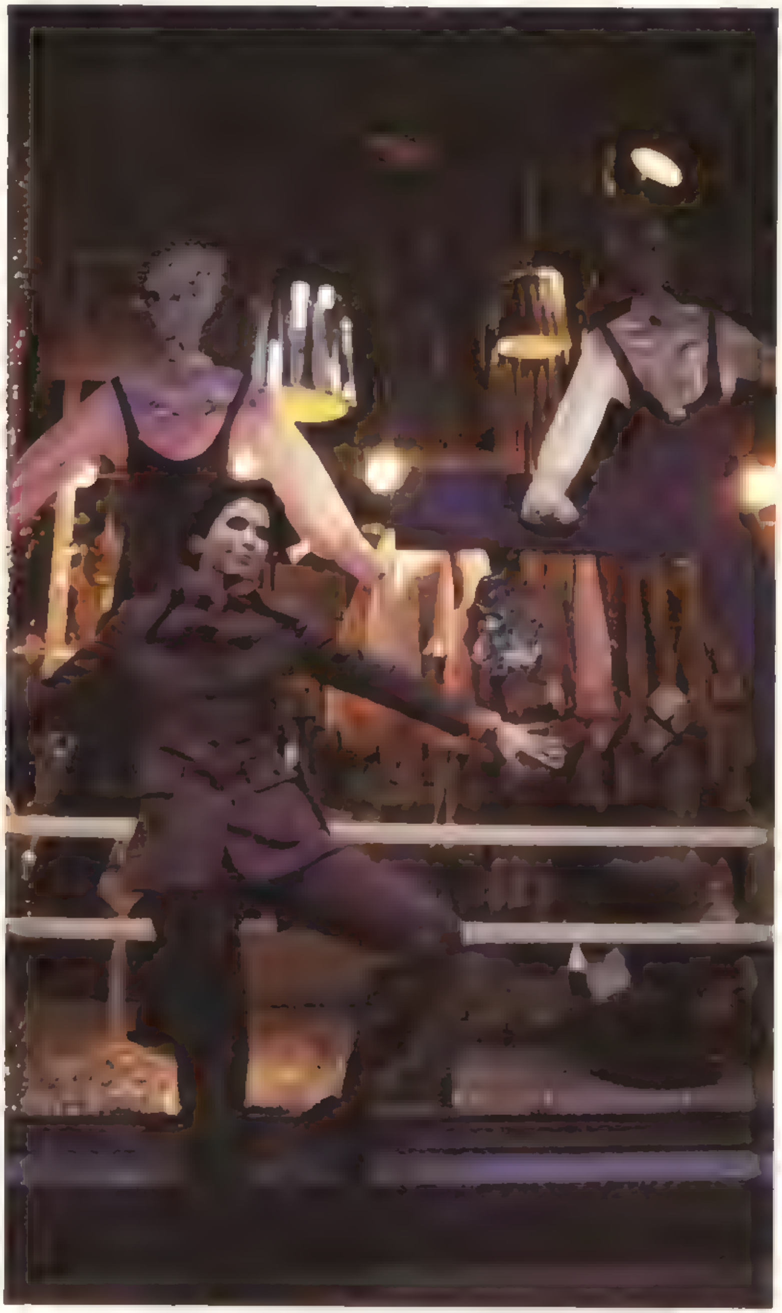
Work starts on Dayton's sixth store, opening August 1969.

Department store operations were expanded
to the West Coast in 1968.

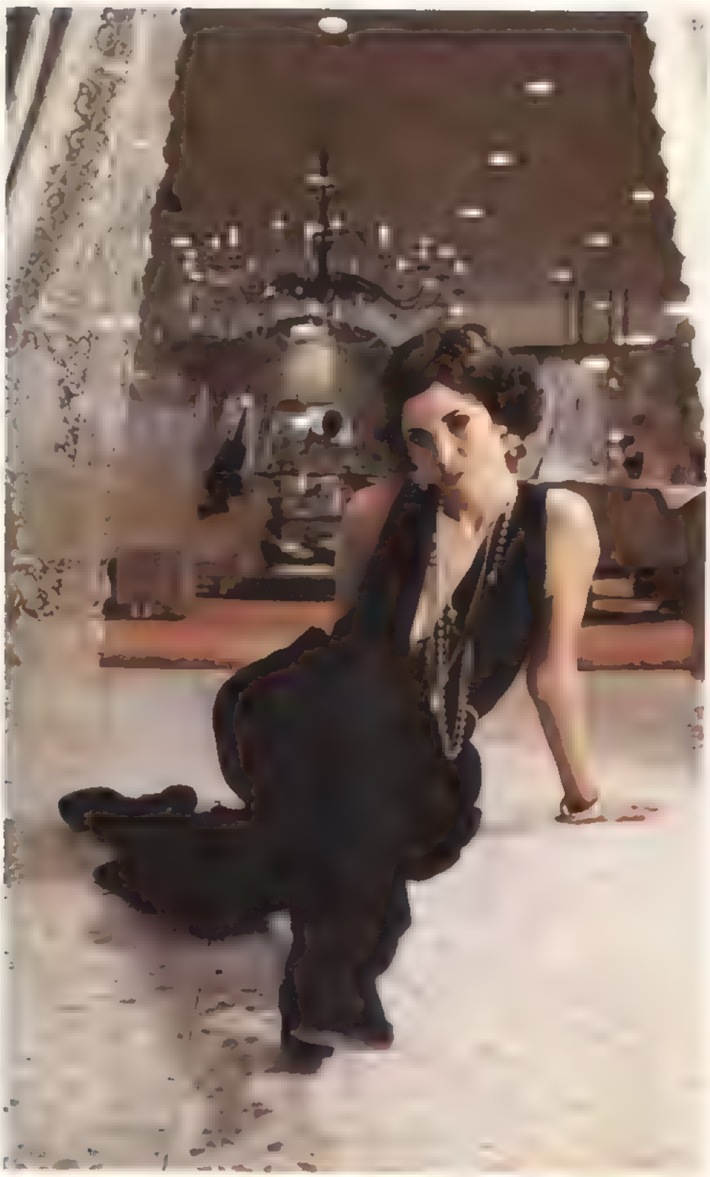
The new stores—Diamond's in Arizona
and Lipman's in Oregon—
joined the group through merger in May.

Diamond's has two stores,
Lipman's has four, which increases
total retail space
of the department stores group
to 3.1 million square feet in 11 stores.

MOOD OF SHOPPING—1969



FASHION/DAYTON'S/MINNEAPOLIS / ST PAUL



FASHION/DIAMOND S/PHOEN X

Dayton's

started work on its new store
at Rosedale Shopping Center
in suburban St. Paul.
Its 189,000 square feet will feature
small shops and boutiques,
continuing a concept well-established
at Dayton's.
Opening of the store—
Dayton's sixth—
is scheduled for August 1969.

At Southdale, Dayton's strengthened its
home furnishings merchandising
with the opening of a separate home store
in November.
The new store will increase
Dayton's market penetration through
an improved
display environment
and a new sales approach built on
providing total decorating
services for customers.

Continuing its reputation for
newness and excitement,
Dayton's introduced to retailing
a new graphic design concept.

This "new look" uses
the corporate symbol and new colors
to replace Dayton's former signature
as its identifying mark.
Its aim: instant recognition
in an age of many competing
demands for attention.
Its uses: advertising, on boxes and
delivery trucks, credit cards, everything
identified with the store.

WESTWARD HO


Diamond's

expects to open its third store
in August 1969—
138,000 square feet
in Tri-City Mall, Mesa, Arizona.

Diamond's now has two stores
—at Park Central and Thomas Mall—
in Phoenix,
one of the nation's fastest growing markets,
with a population of 900,000.

The Tri-City Mall store will further increase
Diamond's dominance. It serves
Mesa, Tempe and Chandler—one
section of the sprawling Phoenix area.
The new store is decorated in the
vivid colors of the Southwest.
Like Diamond's other stores, it
emphasizes a specialty store atmosphere,
concentrating on broad assortments
of apparel and soft goods.

Diamond's capitalizes on the unique
Phoenix market, where the
style of living
is casual, but fashion-oriented.
Its specialized buying staff is
attuned to the wants and needs
of Phoenix residents and uses its know-how
to give Diamond's a competitive edge.

A recently introduced computer system for
inventory control adds to buyers'
ability to identify trends
in fashion merchandise.
The computer is shared with Lipman's.

Lipman's

uses a specialty store approach,
emphasizing apparel and soft goods.

BERTOIA S TREE SOUTHDALE

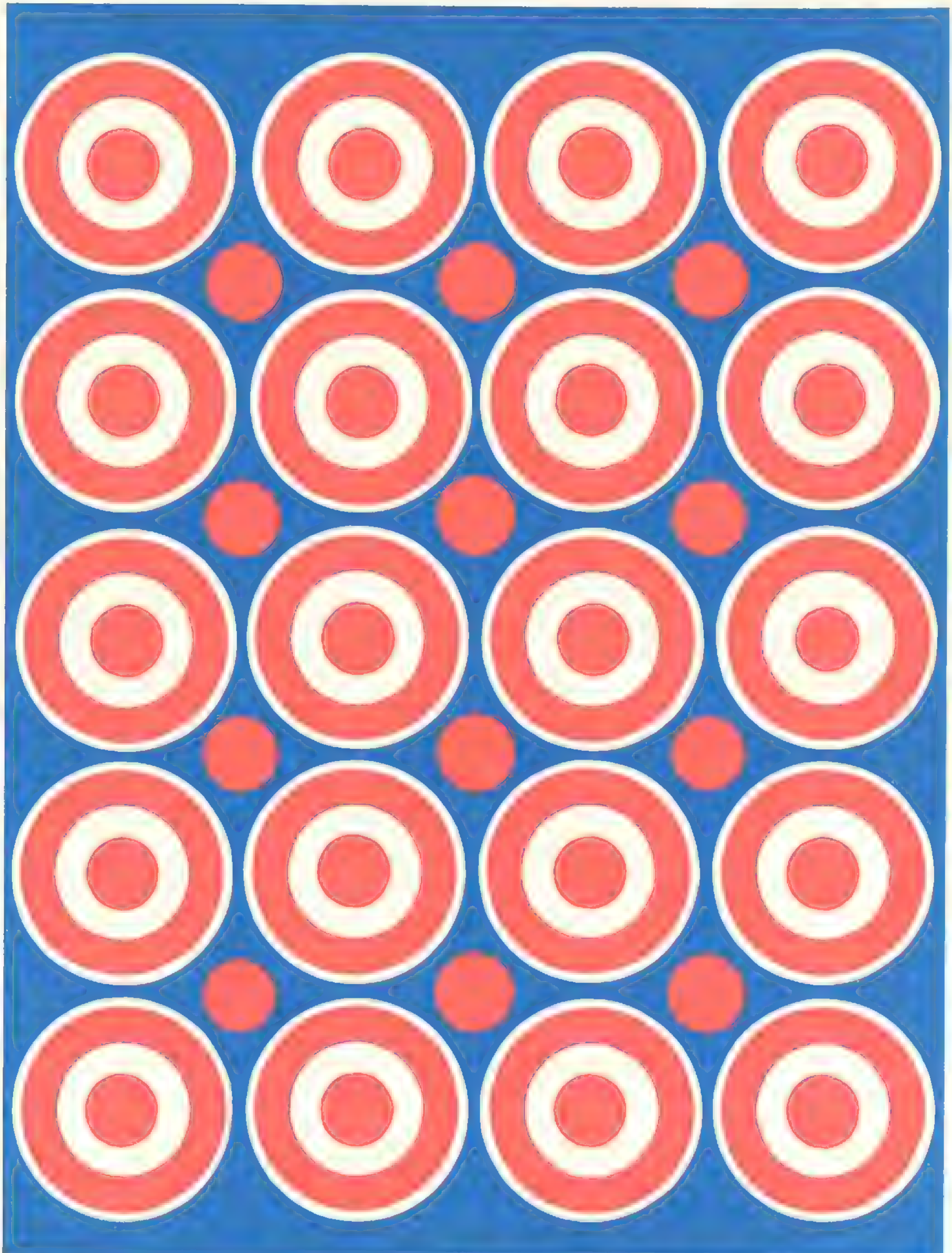
FASHION/LIPMAN'S/PORTLAND

It has four stores—
two in Portland, one each
in Salem—Oregon's capital,
and Corvallis—home of Oregon State University.

Antiques and boutiques
help create a unique
shopping atmosphere at Lipman's.
The antiques include lighting fixtures,
accessories and decorative items
placed throughout the store.
Boutiques are found on every floor
—including a window shop
on the main floor.

Lipman's has added
many new shops in a three-year
remodeling program.
Also new is "Perkins Pub"—
a unique men-only restaurant
located in one corner of the Men's Cellar.

Lipman's and Diamond's have joined
Associated Merchandising Corporation,
a buying group composed of
30 leading department stores throughout the country.
This gives them improved
domestic and overseas buying.
Dayton's was a charter member of AMC,
founded in 1916.



Sales $189,515,025, up 33.6 percent over 1967's $141,824,116.

Two new Target stores open in St. Louis.

Lechmere adds new hard goods strategy.

Seven Target openings, three new markets, in 1969.

This continues to be
the fastest growing operating group
in Dayton Corporation;
it offers the Corporation great potential
for the future.

Lechmere—added to the group early in 1969—
gives the Corporation
an entirely new strategy
in the fast-growing consumer durables field.
Lechmere concentrates on
"big ticket" hard goods items—refrigerators,
washers, dryers, freezers, television sets—
a market which is
expanding rapidly
because of accelerating growth in
new family formations and incomes.

"THE LECHMERE WAY"—HARD GOODS SHOPPING AT ITS MAXIMUM
INCLUDES 225 TV SETS TO CHOOSE FROM, EVERYTHING FOR THE KITCHEN, LAUNDRY, ETC
RAPID SYSTEM OF DELIVERING GOODS FROM HIGHLY-AUTOMATED WAREHOUSE
TO THE COUNTER— OR YOUR HOME


LECHMERE
AM
AM
AM
AM

Lechmere

has developed
its own method of merchandising
in the specialized hard goods field. It now
has two stores—in Cambridge and
Dedham, Massachusetts.

Lechmere emphasizes
broad selections of national brands.
High-speed on-site warehouse operations
process merchandise
for immediate pickup at the store.
Larger items are delivered.

Low prices, high quality and value
characterize Lechmere.
Everything is "priced the Lechmere way—
where you pocket the difference."

Extraordinary promotions—one a month—
are part of the Lechmere approach
to increase store traffic.
Lechmere sold 15,000 cherry pies at 19¢ in
a Washington's Birthday promotion and
introduces summer furniture with
"the first picnic of the year"
on its parking lots.

This formula for success,
developed by Lechmere's two stores,
provides a base for
national expansion
in hard goods merchandising.

Target, by contrast, concentrates on convenience merchandise—everyday needs, health and beauty aids, recreational items and apparel.

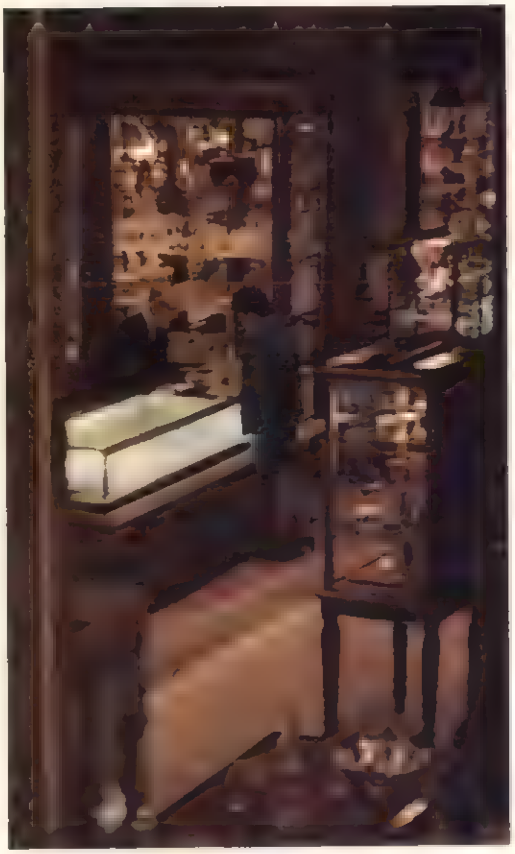
Target

growth in 1968 came from two new St. Louis stores and excellent sales gains in existing stores. An increasingly effective combination of physical facility and merchandise presentation made initial performance of the St. Louis stores the best on record for Target.

To handle increased volume, Target doubled its data processing capabilities. Eighty percent of all merchandise is now computer controlled.

Seven new store openings are in Target's 1969 plans—one already open in St. Louis, three in Houston, two in Dallas and one in Colorado Springs. The new stores will be bigger: 160,000 square feet each, up eight percent in size over the stores built in 1968.

Target has adopted a new land acquisition program, buying land as much as two years ahead of planned construction starts, to maintain an accelerated store opening schedule.



THE CALDWELL LOOK 130 YEARS
OF FINE JEWELRY LEADERSHIP

AT SHREVE S

Sales $21,340,928, up 29.0 percent over 1967's $16,549,441.

Pickwick Book Shops join Dayton Booksellers.

J. E. Caldwell Company joins Dayton Jewelers.

11 bookstores, one jewelry store open in 1968.

Nine bookstores, three jewelry stores in 1969 plans.

The specialty stores group consists of Dayton Jewelers and Dayton Booksellers.

It grew rapidly during the year: 12 new stores were opened; Pickwick and J. E. Caldwell joined the group.

Dayton Jewelers

expanded into Eastern markets with the addition of Caldwell, which operates five Philadelphia-area stores.

Caldwell, in business 130 years, is one of the nation's most respected fine jewelers. Its established clientele and history of success provide an opportunity for additional expansion through branch stores. Caldwell will open a sixth store in late 1969 or early 1970.

On the West Coast, Shreve's opened
the first branch store
in its 116-year history.
Location is Stanford Plaza Shopping Center
in Palo Alto, California.

Performance of Shreve's first branch
outside downtown San Francisco has
exceeded expectations. Shreve's
second branch store is
scheduled to open in late 1969 or early 1970.

J. B. Hudson will open
its fifth Twin Cities store
in August in the new Rosedale
Shopping Center.

Dayton Booksellers,

formed in August as a new operating company,
includes B. Dalton, Bookseller and
Pickwick Book Shops as individual divisions.

B. Dalton grew to 23 stores.
Ten were opened in '68,
four more early in 1969.

Pickwick added a store last year and one at the beginning of 1969 to bring its total of stores in Southern California to nine.

A young, growing Dayton Booksellers enlarged its distribution center and increased its computer inventory control to facilitate accelerated expansion.

Dayton Booksellers plans to open nine stores in 1969, including the five opened since February 1.

New store locations: San Francisco; San Diego; Indianapolis; Las Vegas; St. Louis; Detroit; Carlsbad, California; and Roseville, Minnesota.

ARRANGED-STACKED-PILED NEW CASUAL LOOK OF BOOK STORES

Real estate revenues $7,202,846, up 35.0 percent over 1967's $5,334,056.

Work starts on Rosedale Shopping Center, to open August 1969.

LaSalle Court underway.

Second building opens at Southdale Office Centre, third planned.

Two major projects were launched in 1968:
Rosedale Shopping Center and
LaSalle Court.

Rosedale
—560,000 square feet of retail space
with parking for 3,500 cars—
will open in August 1969.
It serves St. Paul's rapidly growing
north suburban area.

LaSalle Court will have
two levels of retail space
—103,514 square feet—
leased to a variety of merchants, and
parking for 765 cars.

30 shops and services
will be grouped
around its central court.

LaSalle Court is across the street
from Dayton's
in downtown Minneapolis.
A skywalk will connect the two.

Southdale Office Centre's second building
opened in October.
It is completely leased.
A third building will go up in 1969,
as will a restaurant
to serve the complex.
The third building, with 180,000 square feet,
will be the largest built to date.
It is seven stories high, with
an atrium at its core.

1969 openings will increase
space leased to outside tenants
by 32 percent.

Annual spending totals five percent of pre-tax income.

Dayton Corporation Foundation marks 50th year.

Dayton Corporation believes
that a healthy and improving environment
is essential to business success.
The Corporation is committed
to being a good corporate citizen
by contributing to programs which make
our communities
better places to live and do business.

Dayton Corporation consistently uses
five percent
of its annual income before taxes
—as reported in Federal income tax returns—
for charitable and civic purposes.
This includes contributions to
the Dayton Corporation Foundation,
established in 1918.

In 1968—the Foundation's 50th year—
contributions to the Foundation and
direct corporate spending totaled $1,433,000.

Inner-city problems received
major attention in 1968,
with Foundation grants to
a training center, a health center
and a neighborhood youth center.

Other large grants
went to cultural institutions.

United Funds
in cities where the Corporation operates
received $211,390, which supports
a variety of community services.

Educational institutions and
conservation
were other areas of giving.

Charitable and civic programs will be enlarged
in 1969, reflecting
Dayton Corporation's increasingly national scope.

Dayton Corporation and Subsidiaries

STATEMENT OF FINANCIAL POSITION

ASSETS

CURRENT ASSETS

Cash

United States Treasury bills and other
short-term investments—at cost

Accounts receivable—Note C

Merchandise inventories—Note D

Supplies and prepaid expenses

TOTAL CURRENT A

INVESTMENTS AND OTHER ASSETS—in
marketable securities with market value in
of cost by $1,677,876 at February 1, 19
$2,286,284 at February 3, 1968

PROPERTY AND EQUIPMENT—Notes E an

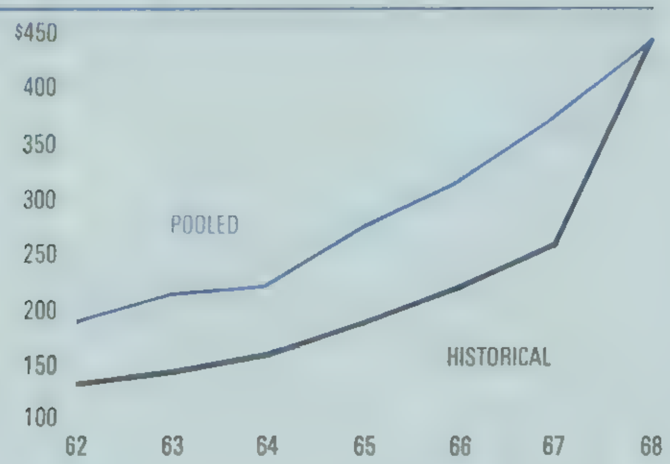
yton Corporation and Subsidiaries
ATEMENT OF INCOME

	Fiscal Year 1968 52 Weeks Ended February 1, 1969	Fiscal Year 1967 53 Weeks Ended February 3, 1968 Notes A and B
t retail sales, including sales of leased departments	$434,132,744	$369,984,044
ntal income	4,933,282	4,373,856
alized gain from real estate sales	2,269,564	960,200
	$441,335,590	$375,318,100
sts and expenses—Note J:		
Cost of sales and expenses, exclusive of items listed below	$381,453,556	$323,681,201
Maintenance and repairs	2,150,318	2,274,742
Depreciation and amortization of property and equipment	5,724,669	5,207,001
Rentals of real property	5,680,222	4,256,509
nterest	3,459,055	3,168,517
Taxes other than income taxes	8,511,939	6,956,117
Contribution to retirement plan—Note G	927,172	933,697
	$407,906,931	$346,477,784
INCOME BEFORE INCOME TAXES	$ 33,428,659	$ 28,840,316
ome taxes—Note A	17,860,000	14,389,847
NET INCOME	$ 15,568,659	$ 14,450,469
EARNINGS PER COMMON SHARE	$ 1.36	$ 1.29

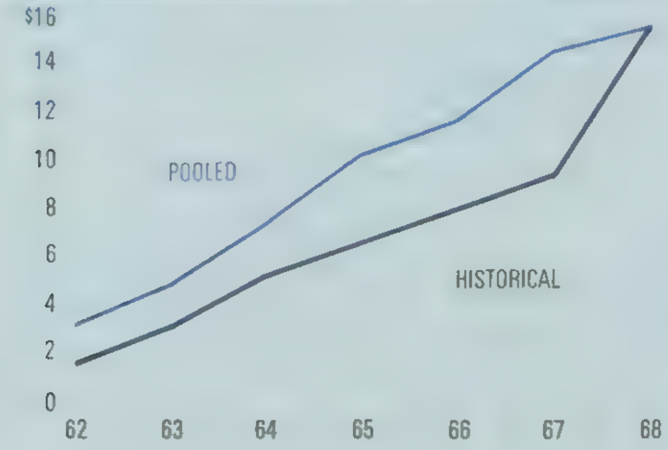
ings per share are based on net income less dividends on preferred stock and computed on weighted average number of shares outding during each year after giving retroactive effect to the stock split described in Note A and to the shares issued in the poolings ribed in Note B.

notes to financial statements.

TOTAL REVENUES millions of dollars



NET INCOME millions of dollars



EARNINGS PER SHARE dollars

[illegible]
were as follows:

	1968	1967	Increase Over 1967
Net retail sales	$434,132,744	$369,984,044	17.3%
Rental income	4,933,282	4,373,856	12.8
[illegible]	[illegible]	[illegible]	[illegible]
Total revenues	$441,335,590	$375,318,100	17.6%

[illegible]
1968 and 1967 were as follows:

	1968		1967		Increase Over 1967
Department Stores	$223,276,791	51%	$211,610,487	57%	5.5%
Discount and Hard Goods Stores	189,515,025	44	141,824,116	38	33.6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	$434,132,744	100%	$369,984,044	100%	17.3%

[illegible]
ten B. Dalton's opened in 1968.

[illegible]
the Corporation.

[illegible]

reducing income before taxes and thereby reducing income taxes for companies using this method The effects of these two items were as follows in 1968 and 1967:

	1968	1967	Increase Over 1967
Income before income taxes and LIFO	$ 34,782,644	$ 29,312,737	18 7%
LIFO adjustment	1,353,985	472,421	
Income before income taxes	$ 33,428,659	$ 28,840,316	15 9%
Income taxes, before surcharge	16,374,000	14,389,847	
Income tax surcharge	1,486,000	—	
Net income	$ 15,568,659	$ 14,450,469	7.7%

NEW COMPANIES During the past year the following four companies joined Dayton Corporation:

	Roberts Bros. (Lipman's and Diamond's)
Date of announcement	3-5-68
Dayton Corporation Common Stock issued in exchange, reflecting 2-for-1 split	1,386,000
Completion of transaction	5-7-68

*Plus 35,175 shares of $5 Convertible Preferred Stock

EARNINGS PER SHARE. Earnings per share, after giving effect to poolings of interests and the 2-for-1 stock split, increased from $1.29 to $1.36, an increase of 5.4 percent. The principal reason for the smaller increase in earnings per share than in net income was the greater average number of shares outstanding during 1968 as a result of the public offering in October 1967.

Pickwick Book Shops, Inc.	J. E. Caldwell Co.	Lechmere Tire & Sales Co.
4-23-68	9-12-68	11-12-68
110,000	2,640*	900,000
8-5-68	2-14-69	2-28-69

The preceding new companies were accounted for as poolings of interests. The effect on 1967 revenues and net income were as follows:

	Revenues	Net Income
Dayton Corporation as previously reported	$265,507,570	$ 9,586,583
New companies:		
Roberts Bros.	45,758,716	2,488,411
Pickwick Book Shops, Inc.	3,430,819	155,993
J. E. Caldwell Co.	5,697,886	249,602
Lechmere Tire & Sales Co.	54,923,109	1,969,880
	$375,318,100	$14,450,469

CAPITAL EXPENDITURES: Capital expenditures of $66 million have been budgeted for 1969. The more important projects are:

Description	Square Feet
Dayton's—	
Rosedale store	189,000
New warehouse—service center	604,000
Diamond's—	
Tri-City Mall store	138,000
Target—	
St. Louis, Houston, Dallas and Colorado Springs stores	1,110,000
New warehouse	400,000
Dayton Booksellers—	
Nine new stores	36,000
Dayton Jewelers—	
Three new stores	11,000
Dayton Development Company—	
Rosedale Shopping Center	211,000
Southdale Office Centre No. 3	180,000
LaSalle Court	428,000*
Total	3,307,000

* Includes 765 parking stalls.

Construction and pre-opening expenses in connection with the above capital expenditures are expected to reduce earnings in the early part of 1969. However, we anticipate that earnings for the year as a whole will show an increase over 1968.

FINANCING: Funds for the Corporation's 1969 capital expenditures program will be provided internally from income and depreciation and externally from mortgage loans (for which commitments in the amount of $27 million have been obtained) and from other long term financing. In January 1969 the Corporation entered into a seven-year revolving credit agreement with seven banks under which it can borrow up to $40 million for both the construction and fixturing of new stores and for working capital.

DIVIDEND INCREASE On February 10, 1969 the Board of Directors increased the quarterly dividend from 20 cents per share (before the 2-for-1 stock split) to 25 cents per share. The 20-cent rate had been the quarterly rate since the Corporation's initial public offering. The 25-cent dividend was paid on March 21 to shareholders of record on March 1. The current quarterly rate on the new shares is 12½ cents.

STOCK SPLIT On February 10, 1969 the Board of Directors declared a 2-for-1 stock split, subject to shareholder approval of an increase in the number of authorized shares of Common Stock. On March 14, 1969 a special meeting of shareholders was held at which the number of authorized shares was increased from 6,000,000 to 20,000,000. The stock split, which was effected in the form of a stock dividend, was paid April 7th to shareholders of record March 24, 1969. The number of shares outstanding after the stock split was 11,312,590.

SHAREHOLDERS At year end the Corporation had 6,575 shareholders in 49 states. This compares with 5,975 shareholders in 47 states at the end of the previous year.

LISTING ON NEW YORK STOCK EXCHANGE The Corporation has received approval to file an application to list its Common Stock on the New York Stock Exchange. It is anticipated that this listing will become effective after the previously announced secondary offering of Common Stock, now scheduled for summer of 1969.

Dayton Corporation and Subsidiaries

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Fiscal Year	
	1968	1967
	52 Weeks Ended February 1, 1969	53 Weeks Ended February 3, 1968 Notes A and B
Source of funds:		
Net income for the year	$ 15,568,659	$ 14,450,469
Depreciation and amortization of property and equipment	5,724,669	5,207,001
Disposals of property and equipment	1,602,310	6,515,792
Increase in long-term debt	23,909,523	—
Proceeds from sale of Common Stock		11,155,699
Other	644,366	737,518
	$ 47,449,527	$ 38,066,479
Application of funds		
Cash dividends	$ 4,224,572	$ 1,735,193
Additions to property and equipment	35,645,443	11,648,910
Decrease in long-term debt		4,466,483
Purchase of Common and Preferred Stock	149,572	5,774,448
Other	2,728,459	278,889
Increase in working capital	4,701,481	14,162,556
	$ 47,449,527	$ 38,066,479

See notes to financial statements

LIABILITIES	End of Fiscal Year 1968 February 1, 1969	1967 February 3, 1968 Notes A and B
CURRENT LIABILITIES		
Notes payable to banks—unsecured:		
Finance subsidiary	$ 15,800,000	$ 8,450,000
Other		1,900,000
Accounts payable	31,642,783	23,158,970
Taxes other than income taxes	6,523,508	5,224,305
Accrued liabilities	5,958,480	5,411,115
Income taxes currently payable	6,264,134	7,244,730
Deferred taxes on income reported on the installment basis—Note A	5,601,000	4,003,000
Long-term debt due within one year	3,798,552	3,135,044
TOTAL CURRENT LIABILITIES	$ 75,588,457	$ 58,527,164
LONG-TERM DEBT—Note F	70,401,308	46,491,785
DEFERRED CREDITS—including deferred income taxes of $4,106,217 at February 1, 1969 and $3,491,217 at February 3, 1968—Note A	4,717,961	4,096,596
SHAREHOLDERS' INVESTMENT—Notes A, B, F, H		
Preferred Stock, voting, without par value: 200,000 shares authorized, issuable in series:		
$5 Convertible, 35,175 shares issued (liquidation value $3,517,500)	$ 351,750	$ 351,750
Common Stock, par value $1 a share:		
Authorized 20,000,000 shares at February 1, 1969 and 6,000,000 shares at February 3, 1968		
Issued 11,481,291 shares at February 1, 1969 and 5,824,859 shares at February 3, 1968, less those in treasury—154,702 shares at February 1, 1969 and 148,573 shares at February 3, 1968	11,326,589	5,676,286
Additional paid-in capital	20,496,512	20,575,261
Retained earnings	77,526,192	72,025,701
	$109,701,043	$ 98,628,998
	$260,408,769	$207,744,543

See notes to financial statements.

Dayton Corporation and Subsidiaries

STATEMENT OF SHAREHOLDERS' INVESTMENT

	Fiscal Year 1968 — 52 Weeks Ended February 1, 1969	Fiscal Year 1967 — 53 Weeks Ended February 3, 1968 Notes A and B
PREFERRED STOCK—Notes A and B		
$5 Convertible Preferred Stock—35,175 shares:		
BALANCE AT BEGINNING AND END OF YEAR	$ 351,750	$ 351,750
Convertible into Common Stock at 2½ shares for each share of Preferred Stock. The 49,993 shares of $100 par value First Preferred Stock outstanding at January 28, 1967 were redeemed during the year ended February 3, 1968 and canceled in the subsequent year.		
COMMON STOCK, par value $1 a share, less treasury stock (shares and dollars)—Notes A, B and H		
Balance at beginning of year	$ 5,676,286	$ 4,527,591
Shares sold to the public	—	350,000
Stock split effected in the form of a stock dividend	5,656,432	815,560
	$ 11,332,718	$ 5,693,151
Deduct shares purchased for the treasury	6,129	16,865
BALANCE AT END OF YEAR	$ 11,326,589	$ 5,676,286
ADDITIONAL PAID-IN CAPITAL—Note A		
Balance at beginning of year	$ 20,575,261	$ 9,769,562
Proceeds in excess of par value of shares of Common Stock issued, less related expenses	—	10,805,699
Contribution to capital of pooled company	23,000	—
	$ 20,598,261	$ 20,575,261
Deduct expenses in connection with mergers	101,749	—
BALANCE AT END OF YEAR	$ 20,496,512	$ 20,575,261
RETAINED EARNINGS—Notes A and F		
Balance at beginning of year	$ 72,025,701	$ 60,884,268
Add net income for the year	15,568,659	14,450,469
	$ 87,594,360	$ 75,334,737
Deduct:		
Cash dividends on Preferred Stock	$ —	$ 244,071
Cash dividends on Common Stock ($.40 a share in fiscal 1968 and $.16 a share in fiscal 1967)	4,004,603	1,383,258
Cash dividends on Preferred and Common Stock of pooled companies prior to mergers	219,969	107,864
Common Stock split effected in the form of a stock dividend (1 for 1 in fiscal 1968 and 1 for 4 in fiscal 1967)	5,656,432	815,560
Excess of cost over par value of Common Stock acquired for the treasury	143,443	486,975
Premium paid on redemption of First Preferred Stock—Series B	—	271,308
Results of operations of pooled company for February 1968 included in income for fiscal years 1968 and 1967	43,721	—
	$ 10,068,168	$ 3,309,036
BALANCE AT END OF YEAR	$ 77,526,192	$ 72,025,701

Cash dividends per share of Common Stock have been adjusted to reflect retroactively the stock split described in Note A.

See notes to financial statements.

CURRENT CAPITAL EXPENDITURE PROGRAM TOTALS $66 000 000 PROJECTS TO BE COMPLETED IN 1969 INCLUDE 1,790 000 SQUARE FEET OF RETAIL SPACE

Dayton Corporation and Subsidiaries

NOTES TO FINANCIAL STATEMENTS

February 1, 1969

Note A—PRINCIPLES OF CONSOLIDATION AND OTHER ACCOUNTING POLICIES

The financial statements include the accounts of Dayton Corporation and subsidiaries (all wholly-owned) after elimination of significant intercompany accounts and transactions.

The following table reflects certain operating data for Dayton Corporation and subsidiaries for the 53 weeks ended February 3, 1968 (fiscal year 1967) on a historical basis and after giving effect to poolings of interests described in Note B.

	Net Retail Sales	Net Income
Historical basis	$260,173,514	$ 9,586,583
Pooled companies prior to year of merger	109,810,530	4,863,886
	$369,984,044	$ 14,450,469

Certain other data for Dayton Corporation and subsidiaries as of February 3, 1968 (end of fiscal year 1967) on a historical basis is as follows.

Working capital	$ 44,182,388
Total assets	163,865,879
Shareholders' investment	73,913,374

On March 14, 1969 the shareholders approved an increase in the authorized Common Stock of the Corporation from 6,000,000 to 20,000,000 shares. The Board of Directors declared a 2-for-1 split of the Common Stock, which is to be effected in the form of a stock dividend, payable on April 7, 1969 to shareholders of record on March 24, 1969 on the basis of one share for each share held. Retroactive effect has been given in the financial statements for the year ended February 1, 1969 to the above increase in authorized shares and the stock split. On February 18, 1969 the Corporation filed a registration statement with the Securities and Exchange Commission proposing to offer 600,000 shares of Common Stock. The Corporation announced on March 6, 1969 that it would not proceed with the offering

The income tax provision includes provisions for deferred income taxes of $615,000 in fiscal 1968 and $627,800 in fiscal 1967 for the excess of depreciation computed on accelerated methods for tax purposes over the straight line method for financial reporting and $1,598,000 in fiscal 1968 and $150,000 in fiscal 1967 for the installment method of reporting income for tax purposes.

Investment credit of $245,000 in fiscal 1968 and $195,000 in fiscal 1967 has been used to reduce income taxes for the respective years.

Note B—NEW COMPANIES

The Corporation has made the following mergers accounted for as poolings of interests and, accordingly, all figures have been restated to give retroactive effect to such transactions.

Roberts Bros., May 1968 for 1,386,000 shares of Common Stock

Pickwick Book Shops, Inc., August 1968 for 110,000 shares of Common Stock

J. E. Caldwell Co., February 1969 for 2,640 shares of Common Stock and 35,175 shares of $5 Convertible Preferred Stock (liquidation value $3,517,500)

Lechmere Tire & Sales Co. and an affiliated corporation, February 1969 for 900,000 shares of Common Stock

On March 6, 1969 the Corporation and The J. L. Hudson Company of Detroit reached an agreement in principle to merge. The merger, subject to approval of the shareholders of each company and to the obtaining of a favorable tax ruling, is to be accomplished by the exchange of 4,500,000 shares of Common Stock for all the outstanding capital stock of The J. L. Hudson Company and a real estate subsidiary. The transaction is to be accounted for as a pooling of interests.

Note C—ACCOUNTS RECEIVABLE

	February 1, 1969	February 3, 1968—Notes A and B
Due from customers		
Thirty-day accounts	$ 13,814,629	$ 12,757,339
Deferred payment accounts	39,263,240	34,833,662
Other accounts	2,325,717	1,049,947
	$ 55,403,586	$ 48,640,948
Less allowance for losses	1,026,859	868,733
	$ 54,376,727	$ 47,772,215

Note D – MERCHANDISE INVENTORIES

Merchandise inventories are determined principally by the retail inventory method. At February 1, 1969 approximately 80% of the inventories are priced at cost (last-in, first-out method) which is not in excess of market, and the remainder at the lower of cost (first-in, first-out method) or market. Inventories are stated $2,992,778 at February 1, 1969 and $1,638,793 at February 3, 1968 less than the amount which would have been determined under the retail method without regard to last-in, first-out principles.

Note E – PROPERTY AND EQUIPMENT – on the basis of cost

	Dayton Corporation and Subsidiaries		Real Estate Subsidiaries	
	February 1, 1969	February 3, 1968—Notes A and B	**February 1, 1969**	February 3, 1968
Land and land improvements	**$ 35,011,965**	$ 21,330,968	**$ 16,129,154**	$ 15,187,080
Buildings	**65,709,083**	63,937,226	**30,980,787**	30,481,590
Equipment	**32,813,919**	30,540,341	**748,341**	576,032
Construction in progress	**14,509,629**	1,638,524	**7,794,656**	862,570
	$148,044,596	$117,447,059	**$ 55,652,938**	$ 47,107,272
Less allowances for depreciation and amortization	**41,060,072**	38,780,999	**10,092,426**	9,105,386
	$106,984,524	$ 78,666,060	**$ 45,560,512**	$ 38,001,886

The amounts shown for the real estate subsidiaries are included in the totals shown for Dayton Corporation and subsidiaries.

Note F – LONG-TERM DEBT – due beyond one year

	Dayton Corporation and Subsidiaries (3)		Real Estate Subsidiaries (4)	
	February 1, 1969	February 3, 1968—Notes A and B	**February 1, 1969**	February 3, 1968
Notes under credit agreement (1)	**$ 17,000,000**	$ —	**$ —**	$ —
5⅝% sinking fund notes (1)	**11,200,000**	12,000,000	**—**	—
6% sinking fund notes (1)	**825,000**	925,000	**—**	—
Unsecured notes (1)	**3,144,079**	3,555,397	**—**	—
Mortgage notes (2)	**35,578,029**	27,412,835	**25,053,530**	21,765,221
Notes and contracts for purchase of real estate (2)	**2,654,200**	1,823,553	**2,654,200**	1,823,553
Interim financing	**-**	775,000	**—**	775,000
	$ 70,401,308	$ 46,491,785	**$ 27,707,730**	$ 24,363,774

(1) The notes under the credit agreement entered into on January 27, 1969 bear interest at the prime rate and are payable on December 31, 1971. The maximum amount available under the agreement is $40,000,000 and the Corporation has the option at anytime prior to maturity to convert the balance to a term loan at ½% above prime and payable in sixteen equal quarterly installments The 5⅝% sinking fund notes are payable $800,000 annually to 1982. The 6% sinking fund note is payable $100,000 annually to 1972 and $125,000 annually thereafter The notes contain requirements and limitations relating to the sale of receivables, working capital (requirements are the greater of $35,000,000 or 150% of current liabilities of the Corporation and certain subsidiaries under the credit agreement and the greater of $17,500,000 or 125% of the funded debt of the Corporation and certain subsidiaries under the sinking fund notes), dividends and other restricted payments Under the most restrictive provisions of the notes, $7,400,000 of retained earnings were available for dividends and other restricted payments at February 1, 1969

The unsecured notes bear interest at rates from 4% to 7½% and mature at various dates to 1985

(2) The mortgage notes and notes and contracts for purchase of real estate bear interest at rates from 4¼% to 7¾% and are payable over periods ranging to 25 years from inception

(3) Aggregate annual payments on long-term debt (exclusive of notes under credit agreement) of Dayton Corporation and subsidiaries through January 1974 (including interest where it is a part of the required monthly payment) are as follows for fiscal years 1969 — $5,695,000, 1970 — $6,762,000, 1971 — $5,941,000, 1972 — $6,378,000, and 1973 — $5,437,000. The net carrying amount of property and equipment pledged as collateral to the mortgage notes and contracts aggregates $48,115,000

(4) The amounts shown for the real estate subsidiaries are included in the totals shown for Dayton Corporation and subsidiaries.

Note G RETIREMENT PLAN

The Corporation has a non-contributory retirement plan covering its employees and the employees of most divisions and subsidiaries. The Corporation's policy is to fund retirement cost accrued to date. The total of the pension fund and the Corporation's accruals at February 1, 1969 exceeded the actuarially computed value of the vested benefits.

Note H STOCK OPTIONS

The Corporation has a Qualified Stock Option Plan under which options for up to 200,000 shares of Common Stock may be granted to employees by a Stock Option Committee appointed by the Board of Directors. The option price may not be less than 100% of the fair market value of the shares on the date of grant. The options are exercisable 25% per year cumulatively in each of the second through fifth years after grant. In December 1968, options were granted to purchase 38,300 shares at a price of $37.625 per share (aggregate amount $1,441,038) which was the market price at date of grant. None of the options had become exercisable at February 1, 1969

Note I – COMMITMENTS

Long-term leases of Dayton Corporation and subsidiaries at February 1, 1969 are as follows:

	Minimum Annual Rentals	Weighted Average Maturity in Years
Department stores	$ 2,009,600	22
Discount and hard goods stores, net of rentals from supermarket operations ($610,000)	1,049,600	29
Specialty stores	1,033,200	11
Warehouses, parking ramps and other real estate	1,383,800	24
	$ 5,476,200	

Most of the leases require additional payments for real estate taxes, insurance, other expenses and rentals based upon percentages of sales

Included in above amounts is $2,104,600 payable to real estate subsidiaries

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $31,000,000 at February 1, 1969

Note J – TOTAL COSTS AND EXPENSES

Total costs and expenses as shown in the statement of income are classified as follows in reports to the Securities and Exchange Commission

	52 Weeks Ended February 1, 1969	53 Weeks Ended February 3, 1968—Notes A and B
Cost of sales, buying and occupancy costs	$317,106,037	$270,433,530
Selling, general and administrative expenses	74,974,164	62,455,395
Provision for bad debts	962,784	956,832
Depreciation and amortization of property and equipment	5,724,669	5,207,001
Rentals of real property	5,680,222	4,256,509
Interest expense	3,459,055	3,168,517
	$407,906,931	$346,477,784

ACCOUNTANTS' REPORT

Board of Directors
Dayton Corporation
Minneapolis, Minnesota

We have examined the statement of financial position of Dayton Corporation and subsidiaries as of February 1, 1969 and the related statements of income, shareholders' investment and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the preceding year. We did not examine the financial statements of Lechmere Tire & Sales Co., a consolidated subsidiary, which statements were examined by other independent accountants whose report thereon has been furnished to us.

In our opinion, based upon our examination and the aforementioned report of other independent accountants, the accompanying statement of financial position and statements of income, shareholders' investment and source and application of funds present fairly the financial position of Dayton Corporation and subsidiaries at February 1, 1969 and the results of their operations, changes in shareholders' investment and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Minneapolis, Minnesota
March 14, 1969

Dayton Corporation and Subsidiaries
SEVEN YEAR COMPARISONS*

	1968
TOTAL OPERATIONS	
TOTAL REVENUES (000's)	
Dayton Corporation and subsidiaries historical results	$ 441,336
With new companies accounted for as poolings of interests	[illegible]
NET INCOME (000's)	
Dayton Corporation and subsidiaries historical results	15,569
With new companies accounted for as poolings of interests	[illegible]
PER SHARE OF COMMON STOCK	
Net income of Dayton Corporation and subsidiaries historical results	1.36
Net income reflecting subsequent poolings of interest	[illegible]
Cash dividends on a historical basis after giving retroactive effect to stock splits	[illegible]
Book value	9.37
CASH DIVIDENDS (000's)	
Preferred stock historical basis	[illegible]
Common stock historical basis	[illegible]
RETAIL OPERATIONS (000's)	
Net retail sales	
Department stores	223,277
Discount stores	[illegible]
Specialty stores	21,341
Total	[illegible]
Retail income before income taxes	31,468
Percent of sales	[illegible]
Retail net income	[illegible]
Percent of sales	[illegible]
CAPITAL EXPENDITURES AND DEPRECIATION (000's)	
Capital expenditures	[illegible]
Depreciation and amortization	5,725
YEAR END FINANCIAL POSITION (000's)	
Working capital	[illegible]
Property and equipment, net of depreciation	
Retail companies	[illegible]
Real estate companies	[illegible]
Total	[illegible]
Long-term debt	
Retail companies	[illegible]
Real estate companies	[illegible]
Total	70,401
Shareholders' investment	109,701
Return on beginning shareholders' investment	15.8%
GENERAL	
Average common shares outstanding	11,350,330
Total square feet of space (000's)	
Space used in retail operations	4,937
Space leased to others	1,550
Number of stores used in retail operations	62

*Unless otherwise stated, data have been restated to give retroactive effect to mergers accounted for on a pooling of interests basis Average shares computations give retroactive effect to stock splits, stock dividends and poolings. Fiscal years end on approximately January 31 of the year following.

1967	1966	1965	1964	1963	1962
$ 265,508	$ 223,211	$ 189,776	$ 165,765	$ 147,254	$ 131,732
375,318	323,531	275,215	236,589	210,117	184,346
9,587	8,023	6,866	5,432	3,348	1,845
14,450	11,941	10,301	7,628	5,145	3,419
1.10	.94	.75	.57	.31	.12
1.29	1.08	.88	.62	.39	.31
.16	.07	.01	—	—	—
8.38	6.73	5.19	4.25	3.62	3.21
244	733	809	823	842	849
1,383	537	40	—	—	—
211,610	196,097	183,616	169,936	154,988	145,631
141,824	108,692	75,843	53,410	42,878	27,191
16,549	13,636	12,137	10,252	9,498	8,844
369,984	318,425	271,596	233,598	207,364	181,666
28,726	22,240	20,998	14,054	9,924	7,836
7.8%	7.0%	7.7%	6.0%	4.9%	4.3%
14,396	11,790	10,524	7,630	5,195	3,305
3.9%	3.7%	3.9%	3.3%	2.5%	1.8%
11,649	11,549	12,359	6,301	10,754	10,711
5,207	4,815	4,295	3,961	3,397	2,653
66,593	52,420	42,414	36,171	33,832	36,532
40,664	40,967	36,074	35,295	34,342	27,804
38,002	37,712	36,443	30,389	29,322	28,121
78,666	78,679	72,517	65,684	63,664	55,925
22,128	25,824	18,509	18,814	19,620	20,772
24,364	25,124	23,536	19,150	19,283	17,778
46,492	50,948	42,045	37,964	38,903	38,550
98,629	80,531	72,544	63,836	57,619	53,408
17.9%	16.5%	16.1%	13.2%	9.6%	8.0%
10,881,066	10,237,846	10,614,556	10,634,556	10,680,710	10,947,922
4,500	4,558	4,104	3,837	3,827	3,175
1,563	1,465	1,260	1,140	1,120	1,028
48	35	28	25	24	21

DAYTON CORPORATION

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ROBERT G. BERTHOLF
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DONALD C. DAYTON
DOUGLAS J. DAYTON
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and First National City Bank, New York City

REGISTRARS
First National Bank of Minneapolis
and The Chase Manhattan Bank, N.A., New York City

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